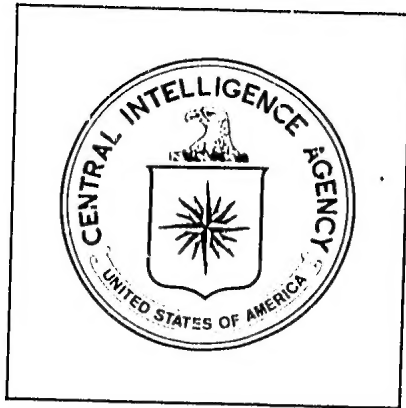


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WESTERN EUROPE -- CANADA -- INTERNATIONAL ORGANIZATIONS

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Unemployment Worsens in France

Unemployment in France, already at a post-war high, will likely jump another 40 percent by yearend--a disquieting increase in a country with vivid memories of the 1968 crisis sparked by students and discontented workers. Paris anticipates a much smaller increase, counting on the psychological impact of the \$3.5 billion reflationary package scheduled for announcement in September. We judge that even if businessmen raise production in expectation of strengthening demand, forces already in motion will drive unemployment up for another four or five months.

Unemployment Trends

The number of unemployed has jumped 95 percent in the past year to 878,000, or 4 percent of the labor force at mid-1975. Last fall saw the steepest rises, with the recent monthly increases at about 40,000. Most of the latest increments represent young entrants into the labor force rather than layoffs. People under the age of 25, the same age group that manned the barricades in 1968, now account for 36 percent of the unemployed, up substantially from a year ago. The percentage of males among the unemployed has also risen during this period, from 47 percent to 53 percent. About one-tenth of the jobless come from the ranks of the 2 million foreign workers, mostly Algerians and Portuguese, who constitute a like share of the labor force.

Of those now out of work, only 70,000 have been laid off and hence qualify for the new program that guarantees jobless workers practically 100 percent of take-home pay. Faced with strong

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pressure from government and unions, French firms have made great efforts to hold on to their employees. Shortened workweeks, advanced vacation schedules, and normal attrition have been used to avoid layoffs. As a result, industrial employment declined only 1.3 percent from July 1974 to April 1975, while industrial production plummeted by 13 percent. Because hourly wages continued their rapid rise, we estimate that unit labor costs rose 21 percent during this period.

Prospects in the Labor Market

We believe that the number of jobless will top 1.2 million by December, possibly reaching 1.5 million, or almost 7 percent of the labor force, and that unemployment will remain well above prerecession levels through 1976.

On the labor supply side, a sharp spurt in the labor force is likely before the end of the year. About 820,000 young people will reach working age this year, of whom 650,000 are expected to enter the labor force. Traditionally, school graduates begin their job search after the August vacation period. Retirements and withdrawals from the labor force should number 300,000 to 350,000 this year, possibly half of them falling in the second part of 1975.

On the demand side, the near-term outlook for job opportunities is bleak. The increase in public spending expected to be announced in early September will not directly affect production until next year. The government is pinning its hopes on an improvement in the immediate climate of business. We believe this is wishful thinking. Because most firms have hung on to excess workers, they can readily increase production in the initial stages of economic recovery through fuller use of current short-timers and underemployed persons.

Other government efforts to create jobs are not likely to have much effect on the demand for labor. Extension of the 1974 ban on the immigration

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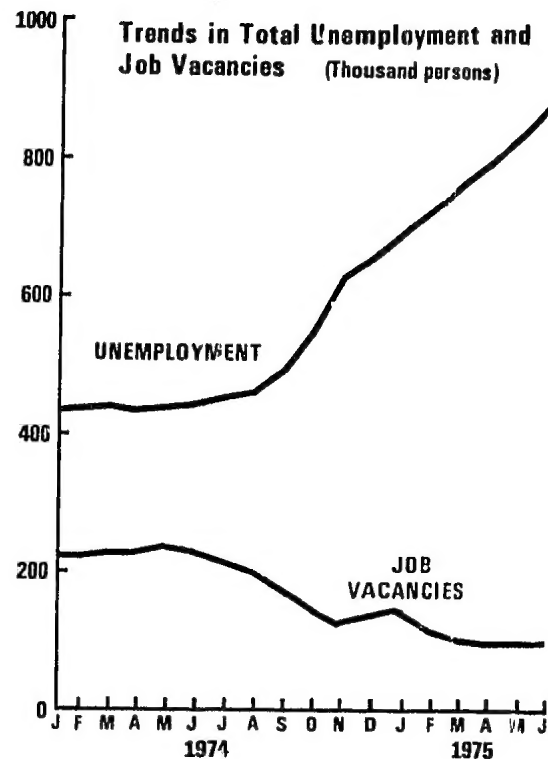
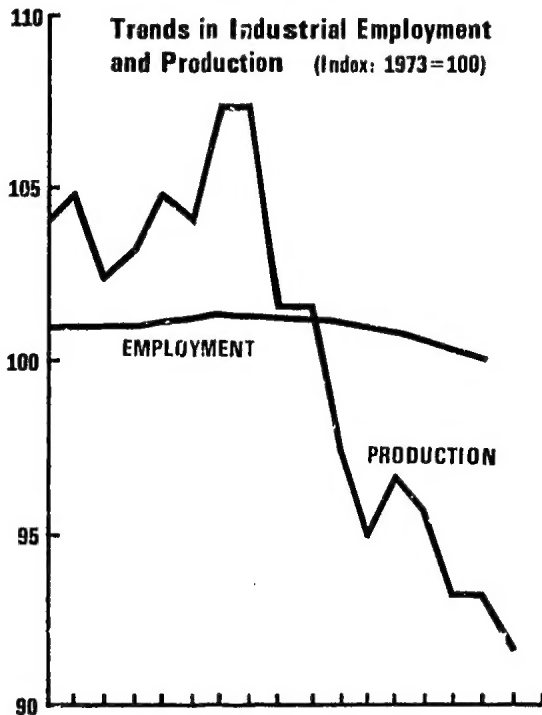
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of foreign labor will curb the growth of the labor supply; it will not release jobs for Frenchmen. With production sluggish, the program announced in June to subsidize the hiring of young workers will hardly make a dent in the crop of new graduates.

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FRANCE: Unemployment Indicators

(Seasonally adjusted)



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Turkish Leftists Arrested

Twenty-six members of the radical left Turkish Revolutionary Peoples' Workers' and Peasants' Party (TRPWPP) have been arrested in connection with their occupation of the US Exchange Retail Store at Izmir on August 7. The party's action to protest the continued US presence in Turkey was well-coordinated and may be part of a larger effort by Turkish radicals to stir up anti-Americanism.

Although the party is small and was outlawed in 1971, it remains one of the best organized revolutionary groups in Turkey. It has a history of violent activities and is reported to control and direct several radical leftist groups that were involved in the recent student and political violence in Turkey. In March of this year a TRPWPP cell was uncovered in Ankara with a cache of military weapons and documents associated with plans to assassinate Turkish political leaders.

Leftist political parties and unions now have more room to maneuver since martial law--imposed last year during the Cyprus war--was terminated earlier this month. With the arms embargo continuing to irritate Turkish-US relations, leftist groups may try to initiate further protests or attacks against US facilities and personnel in hopes of creating the impression of widespread anti-US sentiment. So far, however, no groundswell of anti-Americanism has developed.

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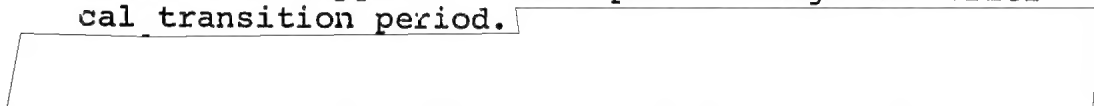
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Leaders of Principal Socialist Party in Spain
Expound Attitudes and Goals

Felipe Gonzalez, secretary general of the Spanish Socialist Workers' Party (PSOE)--the largest of the five illegal Socialist groups in Spain--told Ambassador Stabler in Madrid last month that the PSOE believes that efforts to bring about democracy in Spain by reforming the Franco regime will not work out. His party believes that a complete break with the existing regime will be necessary. This would be followed by a transitional phase leading to a constituent assembly which would draft a democratic constitution.

Gonzalez stressed that the PSOE, like most other opposition groups, is aware of the need to avoid any upheaval or "traumas" during the transition, but he noted that the longer the present situation with a gradually deteriorating Franco at the helm persists, the greater the possibility of a trauma when Franco goes. The PSOE doubts that Prince Juan Carlos, Franco's designated heir, can provide the leadership or attract sufficient support to see Spain through the critical transition period.



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Gonzalez played down the possibility of violence, however, saying the PSOE favors a pragmatic step-by-step approach in the post-Franco era, which would not destroy the positive institutions--he cited schools--Franco has built. He added that he and other young opposition leaders, although born after the Civil War, are very much aware of, and still influenced by the

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war. Thus they are conscious of the need to proceed with caution in order to avoid a similar experience.

Gonzalez and the three colleagues who accompanied him stated they believe the PSOE has a solid working class base and a significant political potential. One member of the delegation told the Ambassador that in a free election the PSOE might have almost as much electoral strength as Mario Soares' Portuguese Socialist Party mustered in the Portuguese elections last April, and that the Spanish Communist Party would do no better than the Portuguese Communists (12-13 percent).

The PSOE leaders emphasized they are opposed to the Communist-dominated Democratic Junta and firmly support the newly formed rival Democratic Convergence coalition. Gonzalez believes this coalition will be capable of carrying on a dialogue with all sectors of society, including the capitalists and the military, in order to secure a peaceful and orderly transition to a democratic system. Gonzalez also stated that the PSOE feels that any post-Franco democratic system must be open to all political parties, including the Communists.

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